

**UGANDA DAIRY  
PROCESSORS  
ASSISTANCE PROJECT  
11th Interim Report**

**March 2005 – May 2005**

**Prepared for  
USAID 2001 DAIRY  
ENTERPRISE INITIATIVE**

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**Prepared by  
Mennonite Economic  
Development Associates**



**Nigel Motts, Project Manager  
Mennonite Economic Development Associates**

**T: (519) 725-1633 ext 21  
F: (519) 725-9083  
E: nmotts@meda.org**

**UGANDA DAIRY PROCESSORS ASSISTANCE PROGRAM**  
**11th Interim Report**

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Annex 1 – Copies of Letters of Notification

# UGANDA DAIRY PROCESSORS ASSISTANCE PROGRAM

## 11th Interim Report

### 1.0 INTRODUCTION

With this report, the Uganda Dairy Processors project remains on track to substantially meet its goals by the end of the project term (end August 2005). The overall goal of the project is:

***“to increase demand of UHT (long-life) milk by 50% at the expense of raw milk and to decrease the price of UHT (long-life) milk from 30 cents US to 20 cents US per 250 ml. [a price reduction target of 33%], thereby improving accessibility of milk in order to positively affect the health of children and better utilize idle dairy capacity in Uganda.”***

Over the last thirteen months of the project, UHT demand has increased by well in excess of 200% and, since project inception, an effective, inflation-adjusted reduction of 25% in the price of 250ml UHT brick packs has been achieved. Capacity utilization (of the increased UHT production capacity) remain at low levels. Key factors explaining this are presented in this report. MEDA has committed the balance of the matching grant facility solely to Alpha Dairy Products (Alpha) after Dairy Corporation Limited (DCL) failed to sustain its' UHT promotion activities at a high enough level during the period covered by this report. MEDA expects that the uncommitted US \$ 18,000 balance it holds on hand in this fund will be fully utilized by Alpha by EOP. The Uganda Dairy Processors Association (UDPA) continued to be very active in promoting UHT industry interests. Except continuing administration of the matching grant facility and monitoring UDPA and individual dairy activities, project activities have been completed.

### 2.0 PROJECT GOALS AND ACCOMPLISHMENTS

The main goals of the project are:

- a) to increase production of long-life (UHT) milk products in Uganda from 25,000 litres per day (lpd) to 37,500 lpd (e.g.: by 50%); and,
- b) to increase consumer demand (for UHT products)

so that the dairy sector in Uganda becomes more efficient and prices of UHT long life milk fall from around 28 cents (USD) per 250 ml pack to about 20 cents (USD) per 250 ml pack.

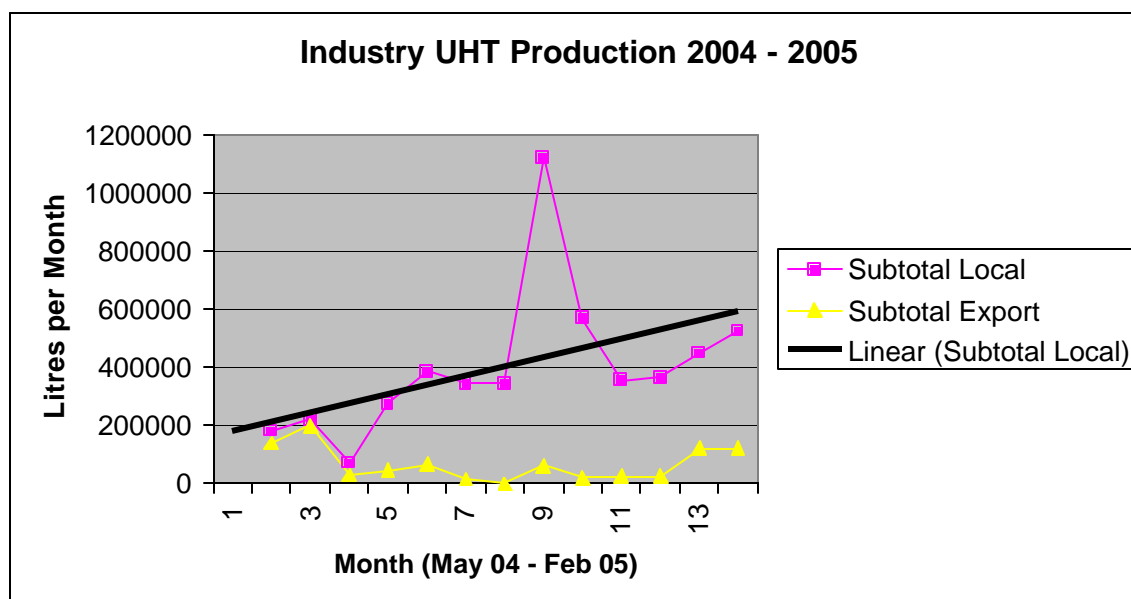
Over the last thirteen months of the project ending 31<sup>st</sup> May 2005, aggregate production of UHT<sup>1</sup> has averaged 467,308 litres per month (lpm) [15,577 litres per day] up from 447,000 lpm over the ten months to 28<sup>th</sup> February 2005 cited in the previous report, reflecting increased production through the months of March to May.

Figure 1 below shows consolidated monthly UHT production and trend lines for all three dairy processors combined dating from May 2004 when UHT production by Alpha and GBK commenced. Figure 2 shows monthly UHT production from the same date for each of the three dairies participating in this project. As can be seen the trend lines indicate a steady increase in production.

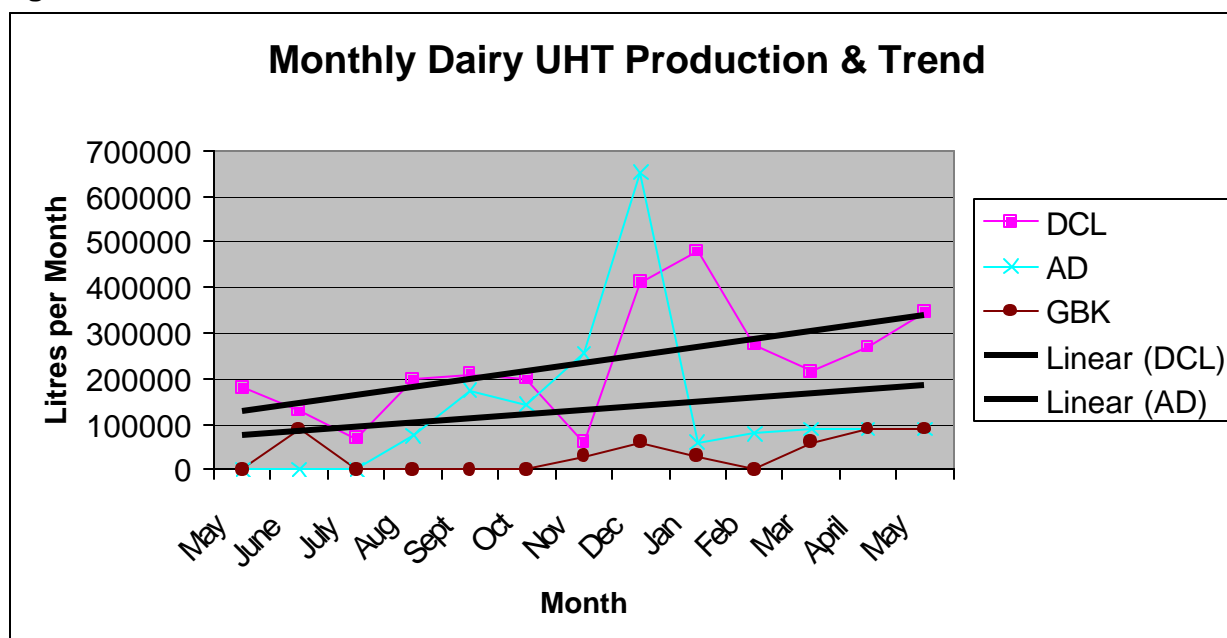
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<sup>1</sup> DCL, Alpha and GBK.

**Figure 1**

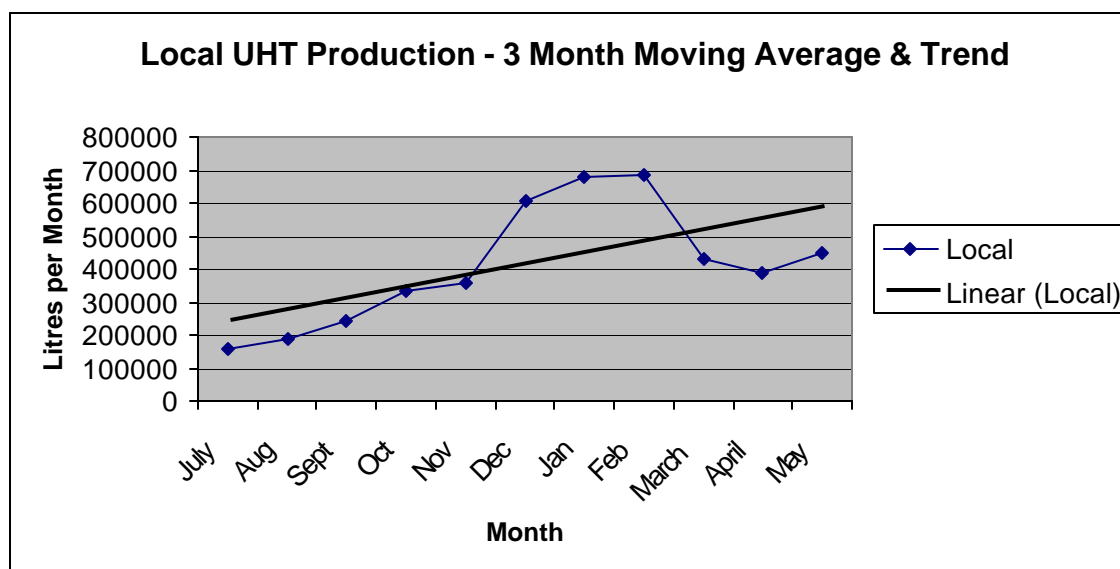


**Figure 2**



Applying a three month moving average (TMA) to data for monthly aggregate UHT production shipped into the domestic market also reveals (Figure 3) that aggregate UHT production is increasing steadily: the TMAs for May to July 2004 and March 2005 to May 2005 are 156,667 and 446,667 respectively. The latter figure excludes the effects of Alpha's production to inventory in December 2004 (refer to prior report). These data are portrayed in Figure 3 below.

**Figure 3**



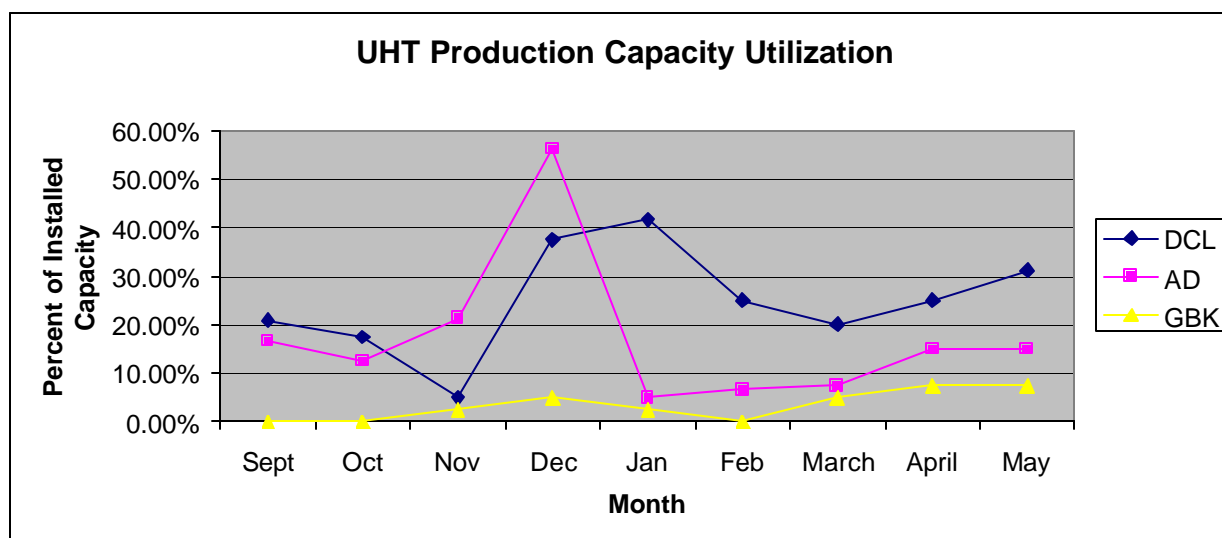
UHT production is a proxy for UHT demand. Based on these TMAs, it is reasonable to assert that demand for UHT has increased by well over 200% over the last thirteen months, substantially exceeding the goal of 50% over the life of the project. This suggests that the UHT promotion efforts of processors are paying off.

Processors participating in this project continued to run UHT product promotion campaigns supported by this project aimed at stimulating demand for UHT. DCL and Alpha both ran road shows and purchased radio and print media advertising for their UHT products during the period reported on, though Alpha was substantially more aggressive than DCL at this. DCL's access to the matching cost share grant facility for UHT promotional costs ended on 30<sup>th</sup> April. Alpha continues to have access to this facility. Reasons for this are explained in section 2.3 following.

UHT pricing has declined marginally to US \$ 0.28 during the period from US \$ 0.29 mark that prevailed over the November 2004 to February 2005 interval. As contended in the 9<sup>th</sup> and 10<sup>th</sup> Interim Reports, this new price point represents a continuing gain (effective price reduction after accounting for inflation) over the US \$ 0.30 per 250ml price at project commencement (November 2002). Adjusted for inflation during the life of this project, this start price of US \$ 0.30 would now be approximately US \$ 0.37. In essence, an inflation-adjusted price reduction of roughly 25% has been achieved to date compared to a project objective of 33%.

Over the last 12 months, Alpha's utilization of installed UHT production capacity has averaged just 17.3%. DCL has fared a little better: 24.9%.

**Figure 4**



Low capacity utilization has continued and is explained by two main factors. Substantial increases in UHT production capacity have been put into place (supported by this project) in anticipation of future UHT demand growth, the effect of this being to reduce capacity utilization for given demand. The WFP tender (noted in the previous report) continues to be stymied by government's attempts to have WFP award the tender to DCL. This continues to dampen UHT production and, therefore, capacity utilization. Second, use of Alpha's Combi-bloc UHT packaging line (included in the installed capacity figure on which its' 17.3% capacity utilization rate are based) is delayed by technical problems requiring importation of new fittings. Commissioning of this unit is expected in mid-2005.

Recent interim reporting explained that UHT processors find it difficult to apply sufficient working capital to demand creation given low demand (pressures processors to keep introductory prices low), price inflation on factor inputs and high cost of debt finance for working capital.

Despite a steep rise in inflation in March and April of this year, the retail price of UHT continues to remain stable (see Table 1), averaging US\$0.27 over the last 15 months of the project. The May 2005 retail price of DCL's UHT dropped by one cent in April to US \$0.28 per 250ml brick pack. Alpha's May selling price of UHT is Ush 1300, equivalent to US \$0.73 per litre pouch (or, US \$0.18 per 250mls).

**Table 1**

| Period; supplier           | Retail price per 250ml brick UHT, US\$ |
|----------------------------|--|
| April 05 (and May 05); DCL | 0.28                                   |
| Nov 04 – March 05; DCL     | 0.29                                   |
| Oct 04; DCL                | 0.26                                   |
| June – Sept 04; DCL        | 0.28                                   |
| March – May 04; DCL        | 0.26                                   |
| Dec 03 – Feb 04; DCL       | 0.26                                   |

Processors are continuing to moderate profit objectives in favour of market development by, amongst other measures, exercising restraint in UHT product pricing policy to encourage product adoption by consumers.

UHT pricing has not increased in line with broader price inflation experienced in Uganda during the project period. The retail price of a DCL 250ml UHT brick was US\$0.30 at project commencement (01 September 2002). Table 2 below presents the impact of inflation (had UHT prices risen in line with inflation)

**Table 2**

| Period                           | Impact on 250ml UHT brick retail pricing, US\$ |
|----------------------------------|--|
| Project start, 01 September 2002 | 0.30   |
| 01 Sept 02 – 30 Aug 03; 10.5%    | 0.332  |
| 01 Sept 03 – 30 Aug 04; 4.7%     | 0.347  |
| 01 Sept 04 – 28 Feb 05; 2.9%     | 0.357  |
| 01 Mar 05 – 30 Apr 05; 4.8%      | 0.374  |

Despite strong inflationary pressures in March and April, the benchmark retail price, in USD equivalent, of a 250ml brick (DCL) dropped by one cent to \$0.28, bringing down the longer term average price. Comparing the inflation adjusted price of US\$0.37 with the average real price of US\$0.27 over the 17 months ended 30<sup>th</sup> April 2005, it can be seen that the project's interventions have enabled UHT producers to avoid or absorb inflationary effects on UHT production cost and to keep increases in retail pricing of UHT to levels substantially lower than general inflation rates. The effective price gain reflected in these figures (the difference between expected inflation-adjusted price and actual average price) now stands at approximately 25%, up from the 23% cited in the previous report. This compares favourably with the pricing goal of the project – a decrease in average 250ml UHT prices of 33%.

The balance of this report relates progress towards achievement of other project goals.

## **2.1 Goal: Mobilization of a Dairy Processors Association**

Membership of the Uganda Dairy Processors Association (UPDA) still remains at 30.

### **2.1.1 Indicators of Goal**

1. *Processors that have attended meetings are actively involved.*

The UDPA organized a number of meetings in the last three months:

- On 18<sup>th</sup> March, the UDPA held a workshop addressed by the Director of the FAO who urged the Association to produce high quality products for the international market.
  - The Association held three working meetings to draft plans for 'Dairy Month' (June).
  - On 15<sup>th</sup> April, the UDPA met and drafted a plan of action to challenge the impending government ban on use of plastic packaging materials.
2. *Regularly scheduled meetings.* Executive Committee meetings continue to be held. The executive committee holds monthly meetings. Since its formation in May 2004, it has met twelve times up to the end of January 2005.
  3. *Association has a manual.*  
The UDPA has adopted a number of regulations, rules, and policies (both explicit and tacitly) to guide its' operations.
  4. *Active industry leadership role.* New indicator of goal achievement.

The UDPA is playing a proactive and prominent industry leadership role. Recent evidence of this includes:

- In March, UDPA submitted a proposal to DANIDA and AFD to underwrite the costs of attending the first African Dairy Conference (ADC) organized by ESADA trade fair in Nairobi in May. Both approved funding.
- Preparations made to celebrate and take advantage of 'Dairy Month' (June).
- Representing the industry in challenging an impending government ban on use of plastic packaging materials.
- Representing the industry at the ADC event in Nairobi (23<sup>rd</sup> – 26<sup>th</sup> May).

## 2.2 Goal: Increase Quality Standards

The HACCP quality assurance activities of this project have been completed. Alpha Dairies is HACCP certified. Assisted by the Land O Lakes project, other dairies continue to pursue certification: Jessa Dairy - HACCP and CMP; Dairy Corp – HACCP and UNBS); and White Nile – ISO 9001, HACCP and CMP.

### 2.2.1 Indicators of Goal

1. A guide defines approved dairy processing methods and criteria. HACCP guidelines adopted.
2. Processors that meet QS criteria receive “seal of approval”. No new progress to report since the November 15<sup>th</sup> meeting convened by UDPA on this matter.
3. Processors receive (quality) technical assistance and training organized through the processors association. Goal accomplished – see earlier reports for further details.
4. Increased volume of UHT (long-life) milk is processed and more processors involved in production. As reported above, UHT production volumes are steadily rising. Three processors are involved in UHT production, up from two at project commencement.
5. Increased volumes of milk in smaller (250 ml) packages. DCL remains the sole supplier of UHT in 250ml bricks to the domestic market. Introduction of a 250ml brick pack product by Alpha has been delayed until mid-2005 by technical problems, as explained above, related to commissioning its' new production line. It began supplying a 500ml pouch UHT product to the local market in August 2004 and GBK resumed production of 500ml pouches in November 2004 after a four month absence from the market.

Table 3 presents UHT processing capacity utilization for last three months.

**Table 3**

| Company      | Installed Capacity<br>(litres per month) | Production during the month |                |                | Capacity Utilization |            |            |
|--------------|--|-----------------------------|----------------|----------------|----------------------|------------|------------|
|              |  | March                       | April          | May            | March                | April      | May        |
| Alpha        | 1,200,000                                | 90,000                      | 170,000        | 180,000        | 8%                   | 14%        | 15%        |
| DCL          | 1,200,000                                | 240,000                     | 300,000        | 375,000        | 20%                  | 25%        | 31%        |
| GBK          | 1,200,000                                | 60,000                      | 90,000         | 90,000         | 5%                   | 8%         | 8%         |
| <b>Total</b> | <b>3,600,000</b>                         | <b>390,000</b>              | <b>560,000</b> | <b>645,000</b> | <b>11%</b>           | <b>16%</b> | <b>16%</b> |

Table 4 breaks down UHT milk production by package size over the last three months.



**Table 4**

| Package Size (ml)  | lpm            | lpm            | lpm            | Percentage |
|--------------------|----------------|----------------|----------------|------------|
|                    | March          | April          | May            |            |
| <b>DCL:</b>        |                |                |                |            |
| Brick 250 Local    | 107,000        | 135,000        | 173,000        | 46%        |
| Brick 500 Local    | 108,000        | 135,000        | 172,000        | 46%        |
| Brick 250 export   | -----          | -----          | -----          | --         |
| Brick 500 Export   | 25,000         | 30,000         | 30,000         | 8%         |
| <b>Sub-total</b>   | <b>240,000</b> | <b>300,000</b> | <b>375,000</b> | 100%       |
| <b>GBK:</b>        |                |                |                |            |
| (Brick 250 (Champ) | -----          | -----          | -----          | --         |
| Brick 500 (Champ)  | 60,000         | 90,000         | 90,000         | 100%       |
| Pouch 500 Classic) | -----          | -----          | -----          | ---        |
| <b>Sub-total</b>   | <b>60,000</b>  | <b>90,000</b>  | <b>90,000</b>  | 100%       |
| <b>Alpha:</b>      |                |                |                |            |
| Pouch 250 local    | -----          | -----          | -----          | 0%         |
| Pouch 500 local    | 90,000         | 90,000         | 90,000         | 50%        |
| Pouch 500 Export   | -----          | 90,000         | 90,000         | 50%        |
| <b>Sub-total</b>   | <b>90,000</b>  | <b>170,000</b> | <b>180,000</b> | 100%       |
| <b>TOTAL</b>       | <b>390,000</b> | <b>560,000</b> | <b>645,000</b> |            |

1. *Project funds help processors meet quality standards and improve UHT long-life processing and packaging in smaller containers.* This activity is complete.

## 2.3 Goal: Brand Name or “Quality Approved” Advertising

### 2.3.1 Indicators of Goal

- a) *Market research report is a basis for brand name or quality approved milk-advertising initiatives.* As reported earlier, no new market research is planned.
- b) *Financial Assistance given to increase producer participation in advertising.* DCL and Alpha both carried out UHT product promotion campaigns aimed at consumers during this reporting period:
  - a. As explained in the 10<sup>th</sup> Interim Report, financial assistance agreements with DCL and Alpha were extended to 30<sup>th</sup> April 2005. To encourage DCL to make better use of its' share of this grant-based cost share facility, the terms of these agreements introduced an element of competition between the two dairies. However, wider circumstances surrounding the management takeover of DCL by Malaysian investors backed by the Government of Uganda have prevented DCL's management from making a substantive commitment to UHT promotion during the period concerned. As a result, and in line with the competition structured by it, MEDA allocated the entire residual balance (approximately US \$18,600) of the matching grant cost share facility to Alpha, effective date 1<sup>st</sup> May, for the balance of the project. Copies of letters of notification to this effect to DCL and Alpha are annexured for the reader's reference.
  - b. During most recent period, DCL incurred an estimated US \$ 1806 in UHT promotional expenses, of which 50% is reimbursable to DCL by the project. MEDA now awaits DCL's claim.
  - c. Despite a breakdown of a vehicle used for UHT promotion, Alpha has continued to aggressively pursued UHT promotion campaign during the period. It incurred an

estimated US \$ 25,280 in UHT promotional expenses. The project will reimburse half of this, US \$ 12, 640, on receipt of Alpha's claim.

- c) *Increased public exposure to brand name or quality approved milk advertising.* As noted above, consumer promotion campaigns by DCL and Alpha included media placements (radio and news print media) increasing public exposure to branded UHT products.

## **2.4 Goal: Increase Supply of Milk for the School Nutrition Program**

The project has lacked the resources and capacity needed to directly generate results in this area. It has been limited to relying on the indirect effects of other project investments and good fortune in the form of favourable wider circumstances (such as government support for school milk schemes) – which has not so far materialized – for success in this area. The above-noted WFP tender would finance substantial gains in this direction, but it – as noted above – has not so far materialized. In short, the project has established dairies' capacity and commitment to supplying UHT products to schools, but the dairies concerned now prefer await launch of related initiatives rather than to embark upon their own (more costly) initiatives.

### **2.4.1 Indicators of Goal**

- a) *Contact schools about putting milk into nutrition programs.* Pending launch of related initiatives (WFP).
- b) *Milk as part of school nutrition program improves the health of children.* Expect dairies participating in this project will share in UHT supply contracts to schools through WFP's tender process (still delayed).
- c) *Signed Contracts ensure that schools will have a milk source.* This project is not involved in negotiating dairies' participation in school milk programs.

## **3.0 FINANCIAL**

The awareness and advertising budget, the main programming area still under budget, are still on track to be fully utilized by the end of the project. The quarterly financial expenditure report for the December 2004 to February 2005 period will be submitted to USAID shortly.

## **4.0 MANAGEMENT ISSUES, CONCERNS**

None to report.

## **5.0 CONCLUSION**

Although continuing to operate on an inadequate small budget and now finding itself fundraising for specific activities, the UDPA has established a solid industry leadership role that is valued by member dairies. The UHT product promotion efforts of Alpha and DCL supported by this project are beginning to pay off. These dairies continue to steadily increase their UHT production levels in response to higher product demand from retailers and have ample production capacity to satisfy up to a four-fold growth in consumer demand for UHT. The project has substantially exceeded expectations in this area. On the issue of UHT pricing, the project has also made strong, albeit indirect, progress, UHT prices declining slightly despite sustained inflationary trends over the last year or so, achieving a 25% effective decrease in UHT price against a 33% reduction objective. The project remains on track for completion on schedule.

May 20<sup>th</sup> 2005

Tel: 256 41 345830

Fax: 256 41 345802

Mr. Nawaz Kurji, Managing Director  
Alpha Dairy Products  
P.O. Box 40271  
Kampala, Uganda.

Dear Mr. Kurji,

Re: Eligibility for USAID matching funding for UHT product advertising and promotion expenses

To previous correspondence and agreement on this subject, this letter refers.<sup>2</sup> That letter outlined a procedure that MEDA would use to determine how to best utilize any residual portion of funds remaining in the matching grant facility at 1<sup>st</sup> May. Based on estimates recently provided by Alpha Dairy Products and Dairy Corporation Ltd of your respective forthcoming claims, approximately US\$ 18,800 of this facility remains uncommitted.

Alpha Dairy Products has continued to make good use of matching grant fund facility for UHT advertising and promotion purchases availed to it by MEDA thus far during 2005. The purpose of this letter is to extend this year's agreement between MEDA and Alpha Dairy Products for a further period.

It is my pleasure to notify you that Alpha Dairy Products will continue to be conditionally eligible for additional matching funds not to exceed US\$18,800 from the USAID program for eligible advertising and promotion purchases pertaining to its' continuing marketing of its' UHT products from the date of this letter and up to 31<sup>st</sup> July 2005.<sup>3</sup> This provision represents 100% of the estimated total matching grant fund facility still uncommitted. Please provide a timely letter of acceptance of this offer and submit an updated UHT advertising and promotional plan and budget to MEDA.

Please note that the completion date for this USAID-funded project is 26<sup>th</sup> August 2005. If you wish to ensure that you obtain partial reimbursement for eligible expenses incurred between now and 31<sup>st</sup> July, your claim(s) must be received by MEDA in Waterloo by no later than Friday 5<sup>th</sup> August. Use of quick delivery couriers is recommended. MEDA reserves the right NOT to consider claims received at its' Waterloo offices after Friday 5<sup>th</sup> August.

You are kindly reminded to refer to MEDA copies of all media placements (print media visuals, radio transcripts, TV visuals/transcripts) jointly -funded under this facility.

All other conditions of above-referenced prior agreements also apply to the new facility. Please refer to prior agreements for specific terms, conditions and guidance. The matching fund will be provided to you in accordance with the policies stated in the policy document that you received previously relating to this project and in accordance with USAID procurement regulations. Please be advised that expenditures not made in accordance with these approved policies and regulations are not eligible for reimbursement.

I wish you continuing success in your UHT marketing plans and look forward to soon receiving your advertising and promotional plan and budget for the current agreement period. Please contact me if you have any questions or concerns.

Sincerely,



Nigel Motts  
Program Manager, USAID Uganda Dairy Processors Association Project.  
c. Daniel Rutabingwa

<sup>2</sup> MEDA letter, dated February 11<sup>th</sup> 2005, issued to you.

<sup>3</sup> This new facility excludes amounts set aside to cover DCL's and Alpha Dairy's respective forthcoming claims.

May 20<sup>th</sup>, 2005  
Tel: 256 41 341172  
Fax: 256 41230942

Mr. Charles Beisa  
Managing Director  
Dairy Corporation Ltd  
P.O. Box 7078  
Kampala, Uganda

Dear Mr. Beisa,

Re: Eligibility for USAID matching funding for UHT product advertising and promotion expenses

To previous correspondence and agreement on this subject, this letter refers.<sup>4</sup> Excepting your forthcoming claim for eligible UHT promotional expenses, I regret to inform you that Dairy Corporation Ltd is no longer eligible for any further reimbursement under the matching grant facility.

Based on your firm's estimate of 3,215,000 Ugandan Shillings worth of eligible expenses recently provided to MEDA for its' forthcoming claim, Dairy Corporation Ltd has continued to make only very modest use (this year in the range of 6%, down from 15% in 2004) of the matching grant fund facility for UHT advertising and promotion purchases availed to it by MEDA thus far during 2005. Based on the above noted estimate and another provided by Alpha Dairy Products of your respective forthcoming claims, approximately US\$ 18,800 of this facility remains uncommitted.<sup>5</sup>

My previous letter to you outlined a procedure that MEDA would follow to decide how to utilize any residual portion of funds remaining in the matching grant facility at 1<sup>st</sup> May. One of the options cited in that letter is:

"if one dairy firm's rate of use of its' matching grant facility is substantially higher than that of the other participating dairy firm, the entire residual amount of both dairies' facilities will be reallocated to the dairy firm with the higher usage rate for a further and final three month period ending on 31<sup>st</sup> July 2005."

Based on the forthcoming claims estimates, Alpha Dairies' use of the matching grant facility has exceeded your firm's over the last several months by a factor of more than ten: a very substantial performance difference.

In fairness to all concerned and to best ensure achievement of project objectives, MEDA has invoked the option stated above and reserved 100% of the US \$18,800 remaining in the matching grant facility for the sole use of Alpha Dairy Products. MEDA will reimburse 50% of eligible expenses anticipated in Dairy Corporation Ltd's forthcoming claim.

Despite being the reluctant bearer of unwelcome news, I nevertheless would like to you and Dairy Corporation Ltd every success in your continuing efforts to introduce and promote UHT products in the domestic market.

Sincerely,



Nigel Motts  
Program Manager, USAID Uganda Dairy Processors Association Project.

c. Daniel Rutabingwa

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<sup>4</sup> MEDA letter, dated 11<sup>th</sup> February 2005.

<sup>5</sup> This amount excludes amounts set aside to cover DCL's and Alpha Dairy's respective forthcoming claims.